

VZCZCXRO2871  
RR RUEHROV  
DE RUEHAE #0365/01 2040532  
ZNY CCCCC ZZH  
R 220532Z JUL 08  
FM AMEMBASSY ASMARA  
TO RUEHC/SECSTATE WASHDC 9801  
INFO RUCNIAD/IGAD COLLECTIVE  
RHMFISS/HQ USAFRICOM STUTTGART GE  
RHRMDAB/COMUSNAVCENT  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUMICEA/JICCENT MACDILL AFB FL  
RUEPADJ/CJTF-HOA J2X CAMP LEMONIER DJ  
RUEKDIA/DIA WASHDC  
RHMFISS/CDR USCENCOM MACDILL AFB FL  
RUEAIIA/CIA WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ASMARA 000365

SIPDIS

DEPARTMENT FOR AF/E,  
LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 07/17/2018

TAGS: [ECON](#) [PGOV](#) [ENRG](#) [ER](#)

SUBJECT: INSIGHTS ON ERTIREA'S FUEL DISTRIBUTION SYSTEM

REF: ASMARA 312

Classified By: Ambassador Ronald K. McMullen for Reason 1.4 (d)

¶1. (C) Summary: Total's Manager in Eritrea described an inefficient fuel distribution system being hamstrung by state control. Desire to dominate and control all aspects of the economy led to the rejection of mutually beneficial proposals to relieve Eritrea's diesel shortage. Total is breaking even on aviation fuel in Eritrea. Gasoline, which does not require a ration card to purchase, retails for \$9.50 per gallon in the highlands, and \$11.25 per gallon in the lowlands. Diesel, which is rationed, sells at a subsidized price of \$4.00 per gallon. End Summary.

¶2. (C) Total's Managing Director in Eritrea Mohammed Gbepo (strictly protect) explained to Emboff some interesting facts regarding private fuel companies in Eritrea. Two private fuel companies operate in Eritrea; Tamoil (Libyan-owned) and Total (French-owned). Both companies are required to purchase diesel fuel from the Petroleum Company of Eritrea (PCE) at a subsidized price (\$4.00 per gallon) in local Nakfa. The PCE is owned by Eritrea's ruling party, the People's Front for Democracy and Justice (PFDJ).

PIA MICROMANAGES FUEL DISTRIBUTION

¶3. (C) Gbepo believes Eritrean President Isaias must sign off on any change in Eritrea's current fuel policies. Even micro-level operational decisions, such as increasing a customer's monthly allocation that deviates from past practices must have the president's explicit approval. This level of head-of-state involvement in operational decision-making has shrunk Eritrea's fuel economy, likely contributing (according to Total's analysis) to a 50% decrease in Eritrea's fuel consumption since 1995.

SHOT DOWN ) A PLAN TO PROVIDE CONTINUOUS DIESEL

¶4. (C) Gbepo said about 60% of civilian diesel fuel was consumed by the PFDJ-owned construction companies. According to Gbepo, the Eritrean government's desire to subsidize the price of diesel for these construction companies, along with a desire to simplify the system to avoid corruption, is why the GSE subsidizes diesel fuel sales for all customers. Gbepo proposed to the Ministry of Energy and Mines (MOEM) a mutually beneficial arrangement to make diesel fuel available to customers, yet allow the Eritrean government to continue

subsidizing party-owned customers. In exchange for allowing Total to sell diesel to customers at market prices, Total would guarantee repayment to Eritrea's fuel suppliers and pay the PCE the spot market price for the fuel in hard currency. He said he would charge PFDJ-owned construction companies whatever subsidized price the government wanted, and then bill back the PCE for the amount under the spot price. This arrangement would have allowed for a continuous flow of diesel into Eritrea, availability for retail customers, and continued subsidies for favored businesses. Gbepo's request was turned down by the MOEM for unspecified reasons.

AVIATION FUEL ) BREAKING EVEN  
-----

15. (C) To make its business model in Eritrea work, Total charges break-even prices to aviation fuel customers. Gbepo said aviation fuel is the only product for which he is allowed to accept payment in dollars. Total uses the dollar revenue to purchase lubricants from abroad. The lubricant purchases are not subject to the monopolistic control of the Eritrean government. Gbepo is able to charge market prices for lubricants, making it the only profitable product for Total in Eritrea. Total recently took over a lubricant contract between Tamoil and the Eritrean government because Tamoil was unable to make delivery. According to Gbepo, Total had originally won the tender, but direct intervention by President Isaias caused the contract to be given to Tamoil.

16. (C) Comment. Eritrea's refusal to consider a plan to provide diesel is indicative of the regime's policy of maintaining full control over all aspects of the economy,

ASMARA 00000365 002 OF 002

even to the detriment of meeting its own needs. Continued presidential intervention and the lack of innovative government management seem likely to hamper fuel supplies indefinitely. End Comment.  
MCMULLEN